

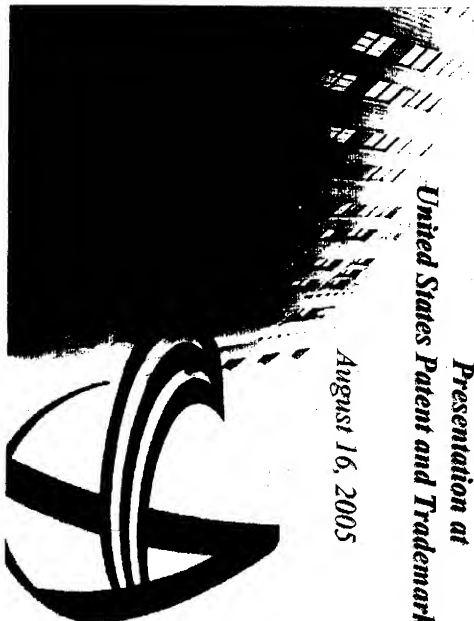
## Exhibit 1

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# Actively Managed Exchange Traded Funds

*Presentation at  
United States Patent and Trademark Office*

*August 16, 2005*



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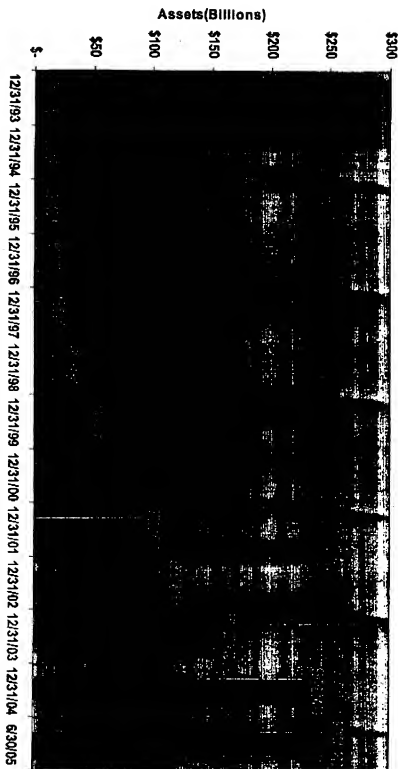
## **Presentation Objectives**

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- **Review current ETF market**
- **Discuss current ETF structure and mechanics**
- **Discuss Actively Managed ETF Demand**
- **Discuss Actively Managed ETF Challenges**



# Growth In Assets



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# Exchange Traded Funds – Key Concepts

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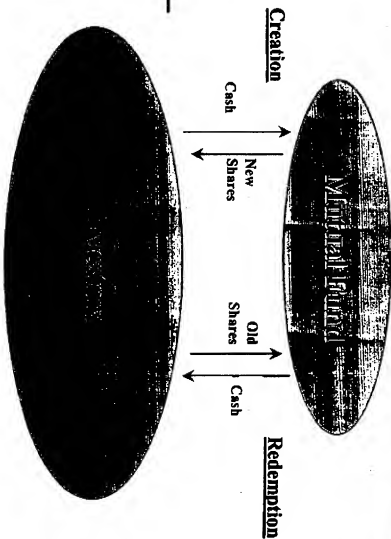
- **Full Transparency**
  - The act of disclosing the holdings of a portfolio to the marketplace on a daily basis.
- **Arbitrage**
  - The simultaneous purchase and sale of substantially identical assets in order to profit from a price difference between the two assets.
- **Hedging**
  - Transactions in a contract, security, or other instrument intended to partially or fully offset some type or element of risk.
- **Specialist/Market Maker**
  - A member of an exchange who accepts primary responsibility for making a fair and orderly market in a security at all times the exchange is open for business.



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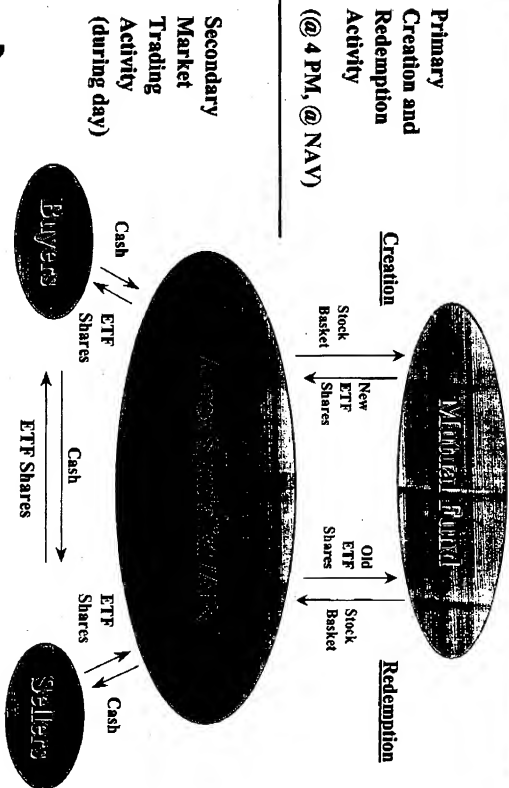
# ETFs – Structure & Mechanics

**Primary  
Creation and  
Redemption  
Activity**  
(@ 4 PM, @ NAV)



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# ETFs – Structure & Mechanics



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## **Exchange Traded Funds – Structure**

- **Currently Only Index-based**
- **Full transparency of holdings**
- **Full transparency easily permits:**
  - **Publishing intra-day indicative value**
  - **Very low-risk arbitrage**
  - **Highly effective hedging**
  - **Straightforward creation/redemption**





## Actively Managed ETFs – Long Felt Need

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➔ *“Actively managed ETFs have yet to be filed with the SEC because nobody has yet been able to figure out how to create one.... It seems that only a few rocket scientists at the American Stock Exchange...have the ability to envision the mechanics of putting together an actively managed ETF.”*

-- Financial Research Corp., April, 2000



## Actively Managed ETFs – Long Felt Need

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**→ “What about actively managed funds? Will they ever come in the exchange-traded variety?” The consensus at an industry conference . . . is that they will.”**

**-- The Street.com, May 16, 2000**



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## **Actively Managed ETFs – Long Felt Need**

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**→ “About a half-dozen mutual-fund companies  
are interested in launching actively managed  
exchange-traded funds.”**

**-- The Wall Street Journal, May 16, 2000**

## Actively Managed ETFs – Long Felt Need

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→ “*[Actively managed exchange-traded funds], the most ambitious of the new products, faces huge hurdles that could take years to clear. But that hasn’t stopped fund companies from pouring money into development.*”

-- The Wall Street Journal Europe,  
September 26, 2000



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## Actively Managed ETFs – Long Felt Need

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➔ *“At least six firms are slated to offer actively managed ETFs in the next year, although portfolio transparency issues must be resolved beforehand.”*

-- [Sovereignwealth.com](http://Sovereignwealth.com), 2001



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## Actively Managed ETFs – Long Felt Need

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→ “Recently, the concept of an ‘actively managed ETF’ has attracted significant attention, even though many of the details regarding the potential operations of actively managed ETFs are apparently still in development.”

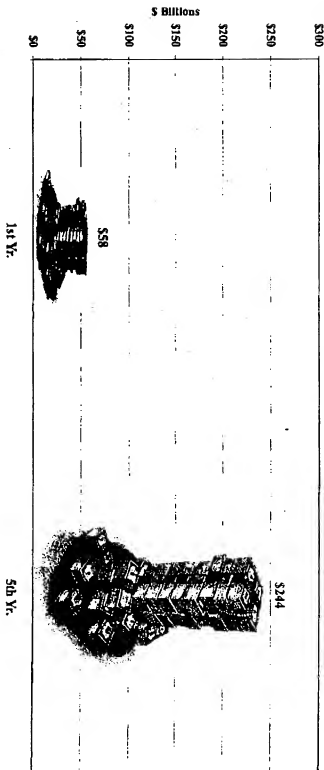
-- SEC Concept Release, November 2001



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# Actively Managed ETFs – Growth Prospects

## Projected Asset Growth (in \$Billions)



Source: Financial Research Corporation study, May, 2000



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## Actively Managed ETFs – Challenges

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➔ There has been one intractable problem preventing the introduction of actively managed ETFs:

**ETFs seem to require full transparency, but fund managers are unwilling to make actively managed funds fully transparent.**





# Mutual Funds & Transparency - Issues

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→ Fund managers do not want full transparency for 2 primary reasons:

→ Front-Running

→ A situation wherein entity A, with advance knowledge of an impending transaction by entity B, executes the same transaction prior to B in order to profit from B's transaction.

→ Free-Riding

→ A situation wherein investor A is able to construct a portfolio which mirrors a fund manager's portfolio due to knowledge of the fund's holdings. Thus, A is able to enjoy the benefits of the manager's knowledge without paying the manager.



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# Actively Managed ETFs – Challenges

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- Thus, the problem is how to make actively-managed ETFs work without full transparency.
- How to provide a hedging basket.
- How to make arbitrage possible.
- How to provide an indicative intra-day calculation.



# Actively Managed ETFs – Solution

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→ The Amex Solution

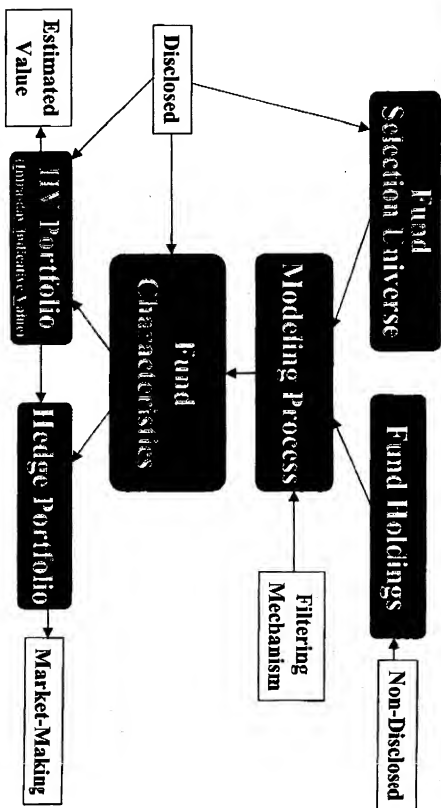
→ Full transparency not required

→ Key insight: only enough information needed

→ An assumed intractable problem has been solved.



# Actively Managed ETFs – Solution



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